

Implications of April 2026 MPC

The Monetary Policy Committee (MPC), at its April 2026 meeting, **maintained a status quo on policy rates, keeping the repo rate unchanged at 5.25% and retaining a 'neutral' policy stance.** The neutral stance gives MPC the flexibility on rate changes depending on data.

The combination of 4.6% retail inflation (CPI) projection and 6.9% growth rate for FY27 might not leave much policy space for further rate cuts. The GDP and inflation growth projections for FY27 are 60 bps lower and 1% higher compared to likely actuals for FY26 due to elevated crude and supply chain disruptions. With an average CPI inflation of 4.6% and repo rate at 5.25%, real interest rate would be 65bps which risks capital outflows in the event of further rate cuts with adverse consequences for exchange rate stability. Reiteration of commitment to maintain orderly liquidity conditions will facilitate money market rates to remain within the SDF-MSF corridor.

While recognising challenges to current account due to geo political disruptions, it was stated that the regulatory restrictions on forex open position limits and NDF trades would be reviewed based on evolving developments and they are not intended to be permanent measures.

A temporary ceasefire to the west Asia conflict imparts some comfort on the growth and inflation fronts. The MPC has a slightly dovish outlook on core inflation (excluding food & fuel components).

FY27 Growth forecasts

	FY26	Q1FY27	Q2FY27	Q3FY27	Q4FY27	FY27
February 2026	7.4	6.9	7.0	-	-	-
April 2026	7.6	6.8	6.7	7.0	7.2	6.9

The growth estimate for FY27 carries downside risks due to uncertain geo-political outcomes. Compared to FY26 growth outlook of 7.6%, FY27 is likely to be lower by 60 bps due to these uncertainties. However, on the domestic front India continues to be resilient as evident from high frequency indicators (GST e-way bills, cargo traffic, cement & steel production etc).

The 20-bps upward revision to FY26 GDP growth from 7.4 to 7.6% is attributable to strong domestic fundamentals. The downward revision to FY27 outlook from previous estimates is solely attributable to external developments.

Inflation Dynamics and Projections

	Q1FY27	Q2FY27	Q3FY27	Q4FY27	FY27
February 2026	4.0	4.2			
April 2026	4.0	4.4	5.2	4.7	4.6

MPC forecasts FY27 CPI inflation to be 4.6%, almost 100 bps higher than FY26 based on an assumption of crude averaging \$85 per barrel.

However, there is a possibility that even if the war ends crude may still hold in the range of 90-95 per barrel for a period of 3 to 4 months which could give an upward bias to this forecast. Weather forecasts show the probability of El Nino related below normal monsoons post July which could also push up inflation.

Inflation forecast of 4% for first quarter could imply that oil marketing companies may not hike pump prices during this period. This is also the first instance when the MPC has provided a forecast of core inflation (excluding food & fuel) which is estimated at 4.4%. Excluding precious metals, this will be further lower.

Other Regulatory and Developmental Measures

- **Review of Guidelines for Inclusion of Quarterly Profits in CRAR:** RBI has proposed to dispense with the condition relating to deviation in incremental NPA provisions for inclusion of quarterly profits in CRAR computation. This enhances capital flexibility for banks, allowing quicker recognition of profits into regulatory capital. It improves capital adequacy ratios in the short term, supporting credit growth without immediate need for capital raising.
- **Removal of Investment Fluctuation Reserve (IFR) Requirement:** In view of the existing prudential requirements, including capital charge for market risk and revised investment valuation norms, it is proposed to dispense with the Investment Fluctuation Reserve (IFR) requirement for commercial banks. This reduces regulatory burden and locked-in reserves, freeing up capital for lending and profitability improvement. However, banks may face higher earnings volatility due to absence of this buffer against bond market fluctuations.
- **Streamlining of Board-Level Governance Requirements:** With a view to enabling more effective utilisation of board time and fostering focused engagement on strategic and risk-related issues, a comprehensive review and rationalisation of existing instructions has been undertaken. It can improve decision-making efficiency and accountability.
- **Ease of Access for MSMEs on TReDS Platform:** To promote wider participation and ease of doing business, RBI has proposed removing the due diligence requirement for MSMEs during onboarding onto TReDS platforms. This will accelerate MSME credit flow and increase participation in receivables financing. For banks, it creates opportunities in supply chain financing, but also raises credit risk.
- **Expansion of Term Money Market Participants:** Non-bank entities like NBFCs, AIFs and corporates will be allowed in the term money market, along with higher borrowing limits for primary dealers. This enhances liquidity and depth in money markets, improving monetary policy transmission. However, banks will face increased competition for short-term funds, potentially impacting margins and funding costs.

Implications

- If GDP growth comes 60 bps lower than FY26, bank credit growth is likely to be lower for the current financial year though the growth would still be in double digits. As the inflation forecasts are not very aggressive, notwithstanding geo political developments and as the central bank has reiterated commitment to enough liquidity, deposit rates might not go up further. Some moderation in credit growth will also aid liquidity management.
- The forecasts give a sense of inflation being less aggressive than expected providing slight dovishness to the policy. 10 Yr benchmark bonds softened to 6.93% due to the twin impact of a temporary ceasefire by USD-Iran and less aggressive inflation forecast.
- Brent crude might not come down aggressively from current levels till the first half of this fiscal and benchmark bond yields are likely to be range-bound between 6.85-6.95% levels with an upward bias.
- Modification of the condition for adding back profit to capital on a quarterly basis might help some banks to improve their capital adequacy ratios which will aid credit growth.
- The removal of the need to set aside investment fluctuation reserve will help improve the liquidity position of banks which can be deployed in alternative avenues, aiding profitability. Also enabling other financial institutions like NBFCs to access term money market will improve their cost of funds and profitability.
- Greater freedom to banks to set their own agenda is a step towards greater autonomy for bank boards which could free up more time for business decision making.

Overall, April 2026 MPC while maintaining status quo in rates recognises the evolving geo political scenario and has attempted to lay down the growth inflation outlook within this framework. RBI has also announced regulatory measures that enables faster decision making by banks. Certain measures are aimed at improving overall liquidity position and profitability.



Economic Research Vertical




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Economic Research Vertical

Madhavankutty G (Chief Economist)

For Suggestions and views please contact, Economic Research Vertical

 080-2222 3169 (Chief Economist)
080-2227 3275 (Section)

 chiefeconomist@canarabank.com
hoersection@canarabank.com